FACT SHEET

FOR PART-TIME FARMERS AND GARDENERS

UNITED STATES DEPARTMENT OF AGRICULTURE

RESOURCES REQUIRED TO ENTER GRAIN FARMING

There are many ways to get started in grain farming today, almost as many ways as there are beginning farmers.

Many beginners start with the help of parents or relatives. Some start out doing part-time farming while working at a nonfarm job. Others inherit a farm. Some marry into a farm family.

To see how some young farmers begin farming, let's look at some first loan applications of young grain farmers in two States, Illinois and Missouri, from 1972 to 1974.

When a young farmer applies for his first loan, he's usually "on his own." He has already accumulated some resources which are his to manage, but getting a loan from a commercial lender means that the operation can now "stand on its own feet."

Let's look at the background, experience, and resources of the young farmers.

What Are Young Farmers Like?

The young farmers who got their first loan from Production Credit Associations (PCA's)—which are farmer-owned financing institutions—during 1972-74 averaged less than 24 years of age. They had acquired some education beyond high school, averaging 12.5 years of school in all. They were married and had one child.

Significantly, these young farmers had acquired 6 years of farm experience before striking out on their own. They had accumulated about 80 percent of their equity from their own work and savings. The remaining 20 percent came from moneys inherited, from savings of their wives, and other sources.

Average assets of these young midwestern farmers totalled $33,000, which is not quite 30 percent as much as assets of the average U.S. farmer ($118,000) in 1972. Debts of these young farmers averaged about $13,000, which means that their equity averaged nearly 60 percent of their total assets.

A further breakdown of equity-to-assets ratios shows that about one out of four of the young farmers had equities that came to 80 percent or more of total assets. More than two out of five reported equities of 50 to 80 percent, and nearly one out of three had equities of less than 50 percent.

Assets, Debts, and Net Worths of Young Beginning Grain Farmers in Illinois and Missouri, 1972-74

Item	Average
Assets	$32,700
Debts	12,700
Net worth	20,000
Proportion of net worth to assets	61 percent

Just over half of the young farmers had cosigners for their first PCA loan.

The financial structure of the young farmers' businesses showed that most assets were of an intermediate-term type such as machinery.

Young farmers who entered farming in recent years have reducd their investment in fixed assets and borrowed less in relation to their equity than those who started earlier. However, they managed, or were involved with, much larger amounts of land through rentals and/or joint operation of land.

Number of Acres Rented

The young grain farmers in Illinois and Missouri operated an average of about 410 acres of land. Only 18 acres of this land were their own, while 245 acres were rented and 148 were operated jointly with others. Most of the land that was operated jointly was managed through a variety of informal arrangements with their fathers.

Acres Operated by Young Beginning Grain Farmers in Illinois and Missouri, 1972-74

Method of Controlling Land	Acres
Owned	18
Rented or leased	245
Operated jointly	148
Total acres operated	411

When the value of land rented and operated jointly was added to the assets of the young farmers, the number of resources controlled by these beginning

farmers increased substantially. In fact, the ratio of borrowed, rented, and jointly operated resources to every dollar of owner's equity increased from $18 to $20.

Thus, when a young farmer strikes out on his own, an important thing is not only how much equity he has and how much more he is able to borrow but how many resources he controls.

Since these young farmers managed a relatively large number of resources, it is not surprising to find that budgeted gross income was also quite large—more than $31,000. Budgeted farm expenditures were near $18,500 and living expenses $6,000, leaving about $7,000 for repayment of loans and savings.

It appears that one important way young farmers increase their ability to accumulate resources is to restrict living expenditures in order to pay annual debts.

Off-Farm Income

About half of the young farmers in the sample received income from nonfarm sources. This information was not available on all young farmers included in the sample, but for those who did report, gross farm income averaged about $25,000 and nonfarm income averaged about $6,600.

The way the loan funds were used mirrors the resource control and debt structure of the young farmers. The average size of the first loan requested from the PCA was about $25,000. About one-half of the loan was for operating credit, more than two-fifths for intermediate-term purposes, and the remainder for other uses.

Capital turnover has increased in recent years in the operations of these young farmers.

Most entering farmers put their limited capital resources into high return uses — for operating and intermediate-term purposes — and where there is a relatively fast turnover of funds. Little capital is tied up in fixed investments. This probably means that the risks associated with the early years of farming have increased.

How Much Money Is Enough?

It takes a lot of capital to start farming. The average investment per farm in the United States in 1974 approached $164,000; for farms grossing $20,000-$40,000 per year, the amount was over $198,000. Since this study was made, capital requirements have increased further. (See tabulation below.)

But young persons entering farming clearly show it takes far less than these amounts to start grain farming in the Midwest. Perhaps only one-fourth as much is needed if more capital resources such as land can be rented or operated jointly with others.

But it isn't easy to get the beginning capital, land, and credit, nor is it easy today to earn an adequate income for family living and growth. After all, in this study family living expenses averaged a modest $6,000 a year.

Still many young people are entering farming and with not much more difficulty than it takes to start many other kinds of businesses with similar opportunities and risks.

Assets, debt, and realized income per farm of farms grossing specified sales, 1975

January 1, 1975, average	$100,000 and over	$40,000 to $99,000	$20,000 to $39,999	$10,000 to $19,999	$5,000 to $9,999	$2,500 to $4,999	Less than $2,500	All farms
Dollar assets per farm	991,208	362,926	220,772	143,420	95,181	72,224	50,196	177,785
Real estate debt	147,273	42,330	17,204	7,098	7,291	1,909	1,270	16,484
Non-real estate debt	147,745	23,165	12,657	8,749	2,823	749	488	12,659
Proprietors' equities	696,134	297,431	190,911	127,573	85,067	69,566	48,438	148,642
Realized net income per farm	55,916	16,633	9,623	5,224	2,987	1,684	1,727	7,410
Off-farm income per farm	12,007	6,229	5,199	6,397	8,283	9,400	14,223	10,148
Total family income per farm	67,923	22,862	14,822	11,621	11,270	11,084	15,950	17,558
Realized net income as percentage of assets per farm	6.8	4.6	4.4	3.6	3.1	2.3	3.4	4.2

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